Important Benefit Information Regarding Your 403(b) and 457(b) Plan

What is a 403(b) retirement plan?

A 403(b) is a tax-deferred retirement plan for employees of public educational institutions and certain other non-profit organizations. A 403(b) plan allows you to contribute a portion of your compensation on a pre-tax basis in order to save for your retirement. Contributions are made to the plan by payroll deduction.

What is a 457(b) retirement plan?

A 457(b) plan is a tax advantaged deferred-compensation retirement plan that is available to state and local public employees, certain nonprofit organizations and governmental and non-governmental employers. The employer provides the plan and the employee defers pre-tax income into the plan. The plan operates similarly to a 403(b) plan, but is slightly more flexible and the key difference is that there is not a 10% penalty for withdrawal before the age of 59 ½ (although the withdrawal is subject to ordinary income taxation).

What are the benefits of contributing to a 403(b) or 457(b) plan?

- Contributing to a 403(b) or a 457(b) plan helps to ensure that you will have funds to provide yourself with an income during retirement.
- The pre-tax elective deferrals that you make to the plan now are not taxed until you withdraw them. This means you are lowering your taxable income now, and will potentially lower the amount of income tax you will pay on those funds at the time of withdrawal when you may be in a lower tax bracket.
- Both your pre-tax elective deferrals and earnings grow tax free until they are withdrawn.

What do I need to do in order to start making elective deferrals?

You can locate a list of vendor(s) approved with in the plan to receive contributions under this 403(b) or 457(b) plan and their contact information by visiting the CPI Participant Website at https://www.cpicrs.com or on the Approved 403(b)/457(b) Vendor list enclosed. The financial advisor representing the vendor(s) will provide you with their form that will set up the contract or account with the vendor. Once you have completed paperwork provided by the selected financial advisor and received an account number to insert on the Elective Deferral Form, please complete the Deferral Form and return to the District's Benefit Specialist.

If you are unable to access the website or want additional information, please contact the CPI Participant Service Center at 877-488-4040 or the District's Benefits Specialist at 636-443-4047.

How much can I contribute to a 403(b) or 457(b) plan?

In 2011 you can make elective deferrals up to $16,500. As this amount is subject to cost of living increases as set by the government, this amount will increase over time. In addition, if you have met certain conditions, you may have the opportunity to contribute above this limit; these contributions are known as "catch-up contributions." The first catch-up contribution is the "Age-50 Catch-up Contribution". If you are at least age 50 by the end of a calendar year, you have the ability to contribute an additional $5,500 a year. This amount is also subject to cost of living increases as set by the government, so it will increase over time. The second contribution limit is known as the "15 Year of Service Catch-up Contribution". If you have at least 15 years of service with School District of the City of St. Charles you may be eligible to contribute up to $3,000 a year above the elective deferral limit until the amount of the additional catch-up contributions made using this special rule equals $15,000. Both the Age-50 Catch-up Contribution and the 15 Year of Service Catch-up Contribution can be used in the same year.

When can funds be withdrawn from a 403(b) plan?

A 403(b) retirement plan is intended as a way to save over the long-term for your retirement. Therefore, distribution of the funds are only allowed when you separate from service, are disabled, die or are at least age 59 ½.

Taking a non-taxable loan or a hardship withdrawal are options available to you should it be necessary for you to withdraw funds from your 403(b) plan prematurely. Taking a hardship withdrawal must meet the requirements of an immediate and heavy financial need. However, certain income taxes and tax penalties may apply depending on the situation.

When can funds be withdrawn from a 457(b) plan?

A 457(b) plan allows you to withdraw funds under the following circumstances: when you retire, when you leave your job for any reason, or during an unforeseeable emergency circumstance which is defined as a severe financial hardship resulting from a sudden illness or a disability or accidental property loss. If you elect to directly receive funds eligible for rollover to another employer plan or an IRA, you are subject to a 20% mandatory federal tax withholding. A 457(b) plan does however allow you to take a withdrawal before the age of 59 ½ without a penalty from the IRS, you will however owe income tax on all withdrawals regardless of your age. You will pay taxes only on the money you receive, and funds that remain in your account and any future investment earnings continue to accumulate tax-deferred until they are withdrawn.

What are the advantages of the 457(b) plan?

At retirement you are offered options from The Retirement System of Missouri on how to receive your funds. One option offered is a Partial Lump-Sum Option (PLSO) which is a PSRS/PEERS service retirement benefit payment option that allows members to elect to have lifetime monthly benefits actuarially reduced in exchange for the right to receive a one-time, lump-sum payment at retirement. <u>A 457(b) plan allows you to take a Partial Lump Sum Option (PLSO) if you retire prior to age 55.</u> The PLSO allows you to take one large payment at retirement, then a reduced monthly benefit for life. The size of this one time payment can be the equivalent of one, two or three years of monthly benefits, which can be a significant amount. <u>If a retiree has a qualified 457(b) account set up **Before Retirement**, then, at retirement, you can rollover the PLSO funds into the qualified 457(b) account</u>. The retiree can then access the funds anytime (with normal income tax implications, but no 10% penalty). However, if an employee retires before turning 55 years of age and rolls the the PLSO funds into a 403(b) account, then those funds cannot be withdrawn until turning age 59 ½ (or you will pay a 10% penalty in addition to normal income tax implications).

For more information on enrolling in your 403(b) Plan, making changes to your current deferral or vendor elections, or any other questions or requests for information, please contact the CPI Participant Service Center at (877) 488-4040 from 7:00 a.m. to 7:00 p.m. Central time, Monday through Friday. You can also send an e-mail to Participant.ServiceCenter@cpicrs.com.